

VZCZCXRO9051
OO RUEHCN RUEHGH RUEHVC
DE RUEHBJ #0559/01 0631200
ZNR UUUUU ZZH
O 041200Z MAR 09
FM AMEMBASSY BEIJING
TO RUEHC/SECSTATE WASHDC IMMEDIATE 2651
INFO RUEHOO/CHINA POSTS COLLECTIVE
RHEHNSC/NSC WASHDC

UNCLAS SECTION 01 OF 04 BEIJING 000559

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: [PGOV](#) [PREL](#) [ECON](#) [EFIN](#) [CH](#) [TW](#)
SUBJECT: PRESS BRIEFING: DEFENSE SPENDING, FISCAL STIMULUS
PACKAGE, TAIWAN, LABOR LAW, POLITICAL REFORM

REF: BEIJING 531

Summary

11. (SBU) At a March 4 press conference designed to preview the March 5 opening session of the National People's Congress (NPC), NPC Spokesman Li Zhaoxing commented on the following issues:

-- Defense Spending: China's defense spending in 2009 will increase by 62.4 billion RMB (approximately 9.2 billion USD), or 14.9 percent, which was less than last year's jump of 17.6 percent. The PLA's sole mission is to "defend China's sovereignty and territorial integrity" and is "no threat" to any country.

-- Global Financial Crisis: The global financial crisis has had a severe impact on China's economy, but China is using the occasion to effect major changes in fiscal policy, including boosts to consumption and social welfare, and plans to reduce the tax burden.

-- Stimulus Package: The four-trillion-RMB (USD 585 billion) fiscal stimulus package approved November 2008 will include 1.18 trillion RMB of central funding over the next two years, with local governments and others responsible for the remainder.

-- Taiwan: Cross-Strait relations are improving, economic relations should be standardized and consultations should begin on a cross-Strait economic cooperation agreement.

-- Foreign Assistance: China's assistance to developing countries will continue in spite of economic pressure from the global financial crisis.

-- Political Reform: Political reform is moving at a pace consistent with Chinese conditions, and China's political structure suits its society and economy.

-- Labor Contract Law: The Labor Contract Law is not the cause of enterprises' difficulties, and proper implementation of the law is the right long-term strategy to respond to the economic crisis.

-- NPC Procedures: The NPC session is shorter this year (eight days, March 5-13) because there are no personnel decisions to be made and to save money.

-- France: China "deeply values" PRC-French relations. End Summary.

NPC PREPARATIONS Complete

12. (SBU) NPC Spokesman Li Zhaoxing, who is China's former Foreign Minister and current Chairman of the NPC Foreign Affairs Committee, began the March 4 initial NPC press

conference by summarizing several procedural issues resolved at that morning's "preparatory meeting" of NPC deputies. Li said the meeting had approved the agenda for the NPC session that will open tomorrow, March 5 (ref A), elected a 171-member NPC Presidium and again elected Politburo member and NPC Vice Chairman Wang Zhaoguo as "Secretary General" of this year's NPC. As was the case last year, Li said interviews would be arranged for the press with NPC delegates and Government officials. Li previewed the official reports, legislation to be considered and this year's NPC press conferences -- noting in particular that there would be a press conference devoted to the global financial crisis -- and then opened the floor to questions. Li received no tough questions this year but appeared well prepared. (Comment: Li's years of experience were evident in his laid-back demeanor and grasp of the issues. His confidence, however, may also have been due to his apparently having received the questions from journalists in advance. AP Bureau Chief Charles Hutzler (protect) told PolOff that all of the questions appeared to have been "planted," revealing that AP had been requested to ask questions at Foreign Minister Yang's press conference on Saturday, March 7, and at Premier Wen Jiabao's concluding press conference on March 13. Hutzler concluded that NPC authorities apparently want to "control everything" at this year's press events.)

Military Spending Up, But Less than Last year

¶3. (U) In response to a question from a Russian journalist, Li said China's defense spending would increase by 62.4 billion RMB (approximately 9.2 billion USD at 1 USD = 6.8

BEIJING 00000559 002 OF 004

RMB), or 14.9 percent, a decrease over last year's jump of 17.6 percent. (Note: The increases in 2004, 2005, 2006 and 2007, according to statistics released at the NPC in previous years, were 15.3 percent, 12.5 percent, 14.7 percent, 17.8 and 17.6 percent, respectively. Li said this year's defense budget of 480.7 billion RMB (70.2 billion USD) accounted for 1.4 percent of GDP (the same as last year) and 6.3 percent of the total Government budget, a figure slightly lower than previous years: 7.2 percent in 2008, 7.5 percent in 2007, 7.4 percent in 2006, 7.3 percent in 2005 and 7.7 percent in ¶2004. Defense spending was controlled through the national budget process, Li said, including stipulations in the budget law and the national defense law. Li claimed that China follows UN standards in reporting its defense expenditures, filing annual reports according to UN procedures, and that there were no "hidden" expenses in the defense budget.

¶4. (SBU) In what has become a canned response to this annual question, Li defended the increase by claiming that it was primarily an effort to keep military spending in line with economic development and by asserting that China spends considerably less of its national budget as a percent of GDP than the United States, Great Britain, France and Russia. (Note: At last year's press conference, the NPC spokesman also included figures for India, and the year before for Japan.) Li provided more detail this year than in the past on the military budget allocations. As in recent years, he emphasized that part of the increase will be used to boost military incomes and quality of life to match the civilian standard of living. In addition, Li said the money would be spent on continuing to modernize the PLA's information technology capabilities, expanding capacity for non-combat emergency and security response, especially disasters and terrorism, and to boost support for military units that remain in Sichuan's earthquake disaster zone to rebuild infrastructure. As usual, Li reiterated China's claims that the sole mission of its military is to "defend China's sovereignty and territorial integrity" and that it is "no threat" to any country.

Global Financial Crisis: Its Start, PRC Response

15. (U) The global financial crisis, Li asserted, had been triggered mainly by deficiencies in the U.S. financial regulation system. The crisis has had a "severe impact" on China's economy, creating "enormous pressure" on Chinese enterprises. The whole country now was fighting the crisis and the government hoped to use this "challenge" as an "opportunity" to effect major changes in fiscal policy, including boosts to consumption and social welfare. Li listed some spending categories that would increase in the 2009 budget: infrastructure (particularly in rural areas), education, health care, employment and re-employment, social safety net, government-subsidized housing, earthquake zone reconstruction, energy conservation, pollution control, technology upgrades, and services. Beyond the new spending priorities, Li said the government planned reforms to reduce tax burdens on both individuals and enterprises, and to promote consumption. Among other measures, he said there would be more export tax rebates or reductions on certain products.

Fiscal Stimulus Package: Four Billion RMB

16. (U) Several Chinese journalists posed questions about aspects of the Government's four trillion RMB (USD 585 billion) fiscal stimulus plan announced last November, including how officials would avoid inefficiency and duplication and ensure good value for their expenditures. Li said the central government would provide a total of 1.18 trillion RMB over the next two years, with local governments and other sources responsible for the remainder. The initial tranche of 100 billion RMB for the fourth quarter of 2008 included 30 billion from the 2008 budget and another 70 billion from 2009 funds; the second tranche of 130 billion for the first quarter of 2009 being drawn from the 2009 budget, which must be approved by the NPC. To avoid duplication and inefficiency, the government was focusing on priority projects that were selected carefully, with strengthened supervision and inspection of their implementation.

Labor Law One Year Later

17. (U) A reporter from Xinhua News Agency asked whether the year-old Labor Contract Law (LCL) is responsible for the financial difficulties some Chinese employers now face, and

BEIJING 00000559 003 OF 004

whether Li agreed that it should be amended or suspended. Li gave a vigorous defense of the LCL, rejecting various criticisms raised about it during the past year. He noted that it passed the NPC with a large majority and after extensive public consultation. Poor management of the financial sector in the United States led to the global financial crisis, and that was the main reason Chinese companies are facing difficulties. Li said proper implementation of the LCL was the right long-term strategy to respond to the crisis, and that this would require better coordination between workers and employers to protect their common interests.

China's Foreign Assistance: Standing By Old Friends

18. (U) China will not decrease its assistance to other developing countries because of the global financial crisis, Li said in response to a Times of India reporter's question. Li asserted that China was either implementing current agreements and maintaining current levels of assistance and cooperation or, in some cases, increasing assistance consistent with China's capabilities. Li emphasized that China appreciates its "true friends" in the developing world, particularly in Africa. He said the support of African countries was key to China's "regaining" its seat at the

United Nations in 1971 as well as its bid for the 2008 Olympics and the 2010 Shanghai World Expo. China would deliver on the commitments it made at the 2006 Beijing Summit of the China-African Cooperation Forum, Li said.

Taiwan: It's All About Economics

¶9. (U) In response to a "softball" question from a Taiwan TV journalist as to whether the NPC would establish exchanges with Taiwan counterparts, Li praised the natural beauty of "this gorgeous island of China's" and said he has long wanted to visit. Li applauded the "positive changes" in cross-Straits relations, especially the increase in "friendly exchanges," but focused primarily on comments made by President Hu Jintao on cross-Straits economic relations in his December 31 Taiwan policy speech. Li underscored Hu's remarks on "normalizing" economic relations and "institutionalizing" economic cooperation, and he urged near-term consultations to implement Hu's proposal to establish a formal "economic cooperation agreement."

Political Reform? Nah!!

¶10. (U) In response to a People's Daily reporter's question about allegations in foreign media that political reform in China was lagging behind economic reform, Li was careful to follow the reporter's lead in using the official rhetoric "political restructuring" versus "political reform." Li listed the usual Party claims about advances in transparency, rule of law and democracy and asserted that there would continue to be "steady progress" in "political restructuring." As evidence that China's political system corresponded to its economic system, he cited the current supposed "stability and harmony of society" and China's "continued economic growth." Li declared, however, that China would continue to pursue a political model that fits China's "national conditions," that is, "socialism with Chinese characteristics," and warned that China would not follow any Western models.

Leading Questions About the NPC

¶11. (U) Li answered seemingly pointed questions from PRC journalists that appeared critical of NPC operations. In answer to a Legal Reporter's question about the alleged difficulty of access by ordinary citizens to their NPC delegates, Li provided examples of measures being taken to improve access. For example, Li noted that NPC delegates serve part-time and had their own jobs, and said the NPC leadership was organizing "delegates groups" to interact with constituents. Li also provided information on points of contact for these sorts of events, to include roundtables and other outreach programs.

¶12. (U) When asked by Hong Kong's Phoenix TV if the timeframe of the NPC was shorter this year in order to save money or to "avoid the distractions" of last year's NPC, Li said the reason was because, unlike last year when personnel decisions were made, this year was a "normal" year. (Note: This year's NPC will only run eight-and-a-half-days, March 5-13 rather than the 10-day norm of recent years. Last year's

BEIJING 00000559 004 OF 004

NPC, however, as the first plenary session of the 11th NPC, ran nearly two weeks due to the "elections" of new Government leaders to five-year terms. The reporter's mention of "distractions" appeared to allude to the riots in Tibet last March which erupted toward the end of last year's NPC.) Li confirmed that economics was a factor in shortening the NPC timeframe but denied there was an attempt to avoid disruptions, claiming that there were no such incidents last year.

¶13. (U) Li seemed surprised by a question from Phoenix TV about the propriety and legality of offering NPC delegates money to "facilitate" their work. (Note: The questioner stated that Guangdong NPC delegates were subsidized to the tune of 1000 RMB each by the Guangdong government to help them "improve the quality" of their legislative proposals.) Li did not address the ethical or legal question, simply stating that such measures were a matter for local authorities to decide.

IMPROVING CHINA-FRANCE RELATIONS

¶14. (U) In response to a China News Service reporter's question about the state of China-France relations, Li avoided specifics but stated that China "deeply values" its relationship with France, noting the long history of China's interaction with France and quoting former Foreign Minister and State Councilor Tang Jiaxuan on the need for good relations with France. Li dodged the reporter's question on whether the recent flap over an auction in Paris of stolen Chinese cultural artifacts would affect relations, stating that the Foreign Ministry spokesperson and other spokespersons had amply covered the issue. However, Li spent considerable time offering his personal views on the moral aspects of the issue.
PICCUTA